MONTANA MONEY SCHOOL

State Auditor John Morrison

Financial Literacy for Newlywed Couples

FROM THE STATE AUDITOR

Dear Newlyweds:

The transition from a single adult to part of a married couple is a monumental life change. There will be new shared responsibilities and many personal and financial decisions to make.

It is never too early for couples to discuss financial planning since attitudes about money and spending habits can be very different. Couples need to decide early, what they want to save and invest for - a home, new car, children's education or retirement - just to name a few.

The purpose of this guide is not to tell you how to invest your money, but to provide information to help you make intelligent and worthwhile investment choices.

Congratulations and best wishes as you invest in your future together.

Sincerely,

John Morrison
State Auditor
Insurance & Securities Commissioner

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FINANCIAL LITERACY FOR YOUNG COUPLES

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BASICS OF FINANCIAL PLANNING

CONSIDER THE FOLLOWING IMPORTANT DECISIONS BEFORE PREPARING A FINANCIAL PLAN

- How will you merge financial accounts and assets? Do you want to keep your finances separate, combine accounts or combine them for common expenses only?
- How much insurance coverage and what types (life, health, disability, home, auto, etc.) do you need? Make beneficiary changes if necessary.
- Review your credit history. It affects your ability to get loans or new sources of credit, and could affect whether you can buy and how much you will pay for insurance.
- Determine how credit card debt will affect your financial future.

CREATE A FINANCIAL PLAN AND SET GOALS

- Figure out your finances, what you own and what you owe.
- Prepare a budget. Determine what your family earns and your monthly expenses.
- Define long- and short-term financial goals.
- Outline your comfort level and tolerance for risk.
- Determine what you want and what you need.
- Create a time line to chart the dates by which you hope to achieve each goal.

SAVING AND INVESTING

The best choice for you depends on when you will need the money, your goals and what risks you are willing to take.

SAVINGS

Savings accounts allow you access to your money at any time. Savings can help meet unexpected expenses or allow you to acquire an item without taking out a loan or using a credit card. The account can serve as an emergency fund for you and your family. It is recommended that savings accounts contain three to six months of income to ensure it is there when needed for situations such as unemployment or illness.

Any money you have in a savings account or in a certificate of deposit (CD) is considered a deposit and is insured by the Federal Deposit Insurance Corporation (FDIC). Financial institutions will return all of your deposits with interest whenever you ask. You can take money out of a CD before it matures, though you will have to pay a penalty for early withdrawal.

Savings accounts are considered a “safe” place to deposit your money, however, they offer lower interest rates, which may not keep pace with inflation. Some people put money in savings, but also invest for higher returns.

INVESTING

Securities investments carry some degree of risk. When you invest, you have a greater chance of losing your money, but you potentially could earn more money than when you save.

Before you invest your hard-earned money, you should define your investment goals and understand the product you are buying. If an investment affects your ability to meet your regular living expenses, it may not be suitable for you and your family. Consider how a loss would affect your budget should the investment fail to perform as expected.

Keep in mind, men and women tend to have different investment styles and viewpoints. One spouse may want to invest in high-risk stocks while the other would be more comfortable investing in mutual funds, which offer more diversity and less risk.

INVESTMENT RISKS

(Risk vs. Reward)

Several key elements to consider before investing are:

- The greater the potential for profit, the greater the risk.
- Securities investments (stocks, bonds and mutual funds) are not federally insured against a loss in market value.
- Investments in securities issued by companies with little or no operating history or without published information may involve more risk.
- The past success of a particular investment is no guarantee of its future performance.

BE AN INFORMED INVESTOR

Prepare a long-term investment strategy to make your money grow.

GET EXPERT ADVICE

Find a brokerage firm and investment representative who understand and can meet your needs.

Ask your friends, family, lawyer or accountant for recommendations on an investment representative.

REMEMBER

Investing is a life-long commitment – not a get-rich-quick fix.

INVESTIGATE BEFORE YOU INVEST

Montana law requires securities and the people selling them to be registered by the state or to have the benefit of an exemption from registration. Call the Montana Securities Department in the State Auditor's office at 1-800-332-6148 for the disciplinary history of a brokerage firm or investment representative.

SAVINGS AND INVESTMENT OPTIONS

Certificate of Deposit (CD)

Banks and credit unions sell CDs, which are similar to U.S. savings bonds in that investors are lending money to an institution for a set period of time - six months, one year, two years, etc. The longer the term, the higher the return on an investment.

Corporate Bonds

A corporate bond is a loan to a company that the company agrees to pay back within a set period of time, at an established interest rate. The longer the term, the higher the interest rate paid to the investor.

Individual Retirement Account (IRA)

An IRA is a tax-deferred personal account that allows employed individuals to set aside up to $2,000 per year for retirement. There are two types of IRAs, traditional and Roth. Earnings from a traditional IRA are tax deferred until withdrawals begin at age 59½ or later. Funds invested in a Roth IRA are pre-taxed, which means the earnings are tax free upon withdrawal at age 59½ or later.

Money Market Accounts

These are very similar to checking accounts but they offer a higher interest rate. Typically, a minimum deposit - $1,000 and higher - is required to open a money market account.

Municipal Bonds

These bonds are issued by states, cities, counties and towns to fund public capital projects such as roads, schools, bridges and operating budgets. They are exempt from federal taxes, and from state and local taxes for investors who reside in the state where the bond is issued.

Mutual Fund

A mutual fund pools money from many investors and uses the money to invest in a portfolio of investments. Mutual funds can contain a variety of investments, including stocks, bonds and CDs. Mutual funds can be a great investment choice because investors enjoy the benefits of diversification without having to make all the buy/sell decisions, which are left to the mutual fund manager.

Real Estate

Buying property is an increasingly popular investment.

Savings Accounts

Bank and credit union customers deposit their money, essentially lending it to the financial institution. In return, customers earn interest on their deposits.

Stocks

Stocks represent ownership interests in a company. Companies issue stock to raise money, usually for start-up costs or to expand operations. Investors who buy the stock own a part of the company. This investment has the highest element of risk because your return is dependent upon the success of the company, which in turn is vulnerable to a variety of market challenges.

U.S. Savings Bonds

These are more formal than a savings account because a bond is a formal agreement with the federal government whereby the investor loans the government money in return for interest on the loan. The government agrees to pay interest after a set time period. A penalty fee is charged if an investor cashes in the bond before it matures.

Do you have questions about an investment, investment manager or a securities firm?

Call the State Auditor's Office
1-800-332-6148
or
(406) 444-2040

SHARING FINANCIAL RESPONSIBILITIES

Men and women should be equally responsible for financial decisions and record keeping so that both are educated and prepared to deal with financial matters in case of an illness or death of their spouse or a dissolution of the marriage. It is particularly important for women to plan and take charge of their financial future. All women should be prepared in case they are responsible for their own finances at some time in their lives.

Some facts to consider:

- Women statistically outlive men by seven years.
- Women earn approximately 25 percent less income.
- Women collect less in Social Security and retirement benefits.

SECOND MARRIAGES

Financial planning and compatibility may take a different and more complicated path in second marriages.

Most couples entering a subsequent marriage know first hand how money (or lack of) can affect a marriage. Many people in second marriages have children of their own and existing financial obligations, liabilities and assets.

The basic concepts of financial planning pertain to all married couples. The following suggestions may be relevant to any married couple and may lessen financial complications in a second marriage.

- Determine asset ownership in the event of a death. Do you want your assets to go to your children or the surviving spouse?
- Consider a pre-nuptial agreement.
- Be sure your wills accurately reflect your wishes.
- Consult a professional who can help you.

THE RETIREMENT YEARS

Even if retirement is years away, you should consider what type of lifestyle you hope to maintain and plan for it.

Many employers offer pension and retirement plans, and investing in IRAs is an excellent option. It will take a lot of determination to start saving and investing for your retirement, but vigilant planning now will ensure future financial rewards and satisfaction.

The Securities and Exchange Commission's roadmap to saving and investing says, *"Traveling down the right road to achieving financial well-being is one of the most important trips that you'll ever make in life. You don't have to be a genius to do it….and you don't have to be rich… you just need to hit the road and get started."*

BEWARE OF INVESTMENT FRAUD

Most investments are legitimate and the majority of salespeople are honest. However, fraud is always a possibility, even with regulated investments.

Con artists attempt to steal money by selling nonexistent or worthless investments, using misleading information and lies.

Beware of the following:

- High pressure sales tactics
- Offers good for today only
- Very high profits with little or no risk
- Inside or secret information
- Unusual arrangements for collecting funds from investors
- Delayed delivery of product or profits

Remember:

- If it seems too good to be true, it probably is.
- High return almost always means high risk.

USEFUL INVESTOR EDUCATION LINKS AND RESOURCES

Montana State Auditor's Office www.discoveringmontana.com/sao

Securities and Exchange Commission www.sec.gov

Federal Trade Commission www.ftc.gov

North American Securities Administrators Association www.nasaa.org

New York Stock Exchange www.nyse.com

Investor Protection Trust www.investorprotection.org

National Association of Securities Dealers www.investor.nasd.com

Alliance for Investor Education www.investoreducation.org

Federal Consumer Information Center www.pueblo.gsa.gov

AARP www.aarp.org

The Council for Better Business Bureaus www.bbb.org

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